CIA/OER/S-07401-75 ECONOMIC INFORMATION ON PHILLIPPINES

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CENTRAL INTELLIGENCE AGENCY

WASHINGTON 25, D.C.

CIA/OER/S-07401-75 [redacted]

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21 May 1975

MEMORANDUM FOR: Mr. Eugene Beaumont
OASD/ISA/IEA
Pentagon

SUBJECT : Economic Information on the Philippines and Cambodia

The attached articles on the economics of the Philippines and Cambodia are in response to your telephone request of 15 May. Note in the case of Cambodia that no statistics are included. What little data were available for the country as a whole -- even before the latest developments -- are fragmentary and of limited value in assessing Cambodia's economic future. If there are any questions, please do not hesitate to call.

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Cambodia

1. Five years of fighting had a devastating effect on the Cambodian economy, with production falling sharply below pre-1970 totals. Agriculture, which has accounted for almost 40 percent of gross national product, was the hardest hit. The recently completed 1974-75 rice harvest was some 60 percent below the 1969 level; and even sharper declines occurred in the production of other food crops and rubber. Industrial output dropped to about half pre-war levels as a result of supply shortages and severe reductions in domestic demand. In addition, a large portion of pre-war manufacturing in such industries as paper, fertilizer, and petroleum was destroyed or damaged.

2. These developments had a strongly adverse impact on most Cambodians. Those living under Communist control even prior to the recent military collapse of the GKR were denied many common consumer goods and forced to adopt subsistence farming on various types of cooperatives. Even such simple items as soap, cloth, salt, and fuel -- when available -- were strictly rationed. Although somewhat higher standards were possible under the Lon Nol regime, this required large-scale US and some other foreign aid. Even so, acute shortages and enormous military-induced budget deficits led to inflation of 250 percent and more during each of the past two years, and this severely eroded real incomes.

3. The new Communist government faces a monumental task in restoring the Cambodian economy and will need foreign assistance if the economic situation is not to worsen. The most urgent problem is an expected large shortage of rice and other foodstuffs. Even with belt-tightening, the country will need some 250,000 tons from outside sources until the next harvest begins this fall. A similar amount will likely be needed in 1976, despite the recent forced migration of some 3 million urban residents to the countryside and government exhortations to prepare the fields for the next crop. Shortages of essential inputs -- fertilizer, other chemicals, and fuel -- along with administrative, material, and motivational impediments will probably keep the upcoming harvest at last year's level. Rebuilding industry will be slow at best and will require large amounts of foreign finance, expertise, and technology. The new rulers have had very limited experience in industry, and a number of Cambodian technicans probably fled the country before the Communist takeover.

The Philippines

1. The Philippine economy has made excellent headway against both recent and entrenched economic problems. During 1973 agriculture recovered from the severe damage inflicted by floods of the preceding year. Changes in commercial and investment law breathed new life into the stagnating industrial sector, while political and social stability attendant on martial law encouraged foreign investors. Exports soared dramatically, riding on the wave of sharp price increases on world commodity markets, and created a record surplus in international payments. With these developments, the rate of real GNP growth of 10% in 1973 was nearly double that of the previous several years and foreign exchange reserves climbed to almost $900 compared to less than $300 a year earlier.

2. The momentum achieved in 1973 carried over into the first half of 1974, but fell off somewhat toward the end of the year in the face of rising import costs and falling export demand caused by recession in the industrialized countries. An earlier-predicted balance in trade deteriorated sharply, resulting in a yearend deficit on that account of about $400 million. Even so, net invisible transactions (mainly tourist receipts and transfer payments) and capital inflows more than offset the trade deficit to yield an overall international payments surplus of some $80 million. Despite the adverse

impact of sluggish world market conditions, the economy achieved real growth of nearly 6%. Manufacturing output rose by only 3.5%, but agriculture remained strong and construction picked up rapidly in the last half of the year.

3. The performance of the past two years, coupled with the government's commitment to economic growth through increased public investment and stress on agricultural development bode well for the Philippines in 1975. Because of softening commodity prices, however, the growth of commodity exports cannot be expected to continue at the rates that so quickly improved the trade account in recent years. This factor, plus rising costs of imported fuels and producers goods, will result in an increased trade deficit in 1975, probably on the order of $500 million. Nonetheless, continuing export diversification, renewed government efforts to attract foreign capital, and recent restructuring of foreign debt through a consultative group have greatly improved the Philippine foreign exchange outlook, and no overall balance of payments difficulties are expected. Barring a calamity in agriculture real growth should be on the order of 5%.

Philippines: Selected Economic Indicators

	1970	1971	1972	1973	1974
GNP (current market prices) (billion US $)	6.36	7.64	8.31	10.27	14.00
Percent change in GNP (real terms)	5.5	6.5	4.2	10.0	5.9
Defense expenditures (current market prices) (million US $)	54.2	66.0	74.3	177.3	256.0
As a percent of GNP	0.9	0.9	0.9	1.7	1.8
As a percent of total government expenditures	8.7	9.7	8.9	15.1	12.5
Commodity exports (f.o.b) (million US $)	1,083	1,147	1,138	1,837	2,725
Commodity imports (f.o.b) (million US $)	1,090	1,186	1,261	1,596	3,140
Trade balance (million US $)	- 7	-39	-123	+241	-415
Foreign exchange reserves (million US $)	213	244	282	876	1,166
Imports of military equipment (million US $)	16.8	20.1	18.5	14.8	N.A.
of which: US grant (million US $)	15.7	16.5	16.0	12.6	N.A.
Debt service ratio[1]	24.6	26.5	22.4	16.4	15.2

1. Government and private external debt payments as a percent of commodity and service exports.

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